

# CHIEF EXECUTIVE OFFICER'S REPORT

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At Montauk we are very proud to be a leader in the renewable energy industry – an industry that is at the forefront of the sustainability movement through the capture and beneficial use of organically generated biogas, which is significantly comprised of methane. Methane, with a global warming potential 25 times greater than CO<sub>2</sub>, is a potent greenhouse gas (“GHG”) that is a key contributor to global climate change.

The Company captures methane, preventing it from being released into the atmosphere, converts it into either renewable electricity or renewable natural gas (“RNG”) and sells the renewable electricity and the RNG, taking advantage of environmental attribute premiums available under federal and state policies that incentivise their use.

## BUSINESS OVERVIEW

The business, with all its social and environmental qualities, can be difficult at times due to the inherent higher production costs of RNG, as compared to fossil fuel-based energy producers. Factors such as climate, feedstock and biogas composition all impact production of RNG and renewable electricity. Additionally, the process to recover and convert raw biogas into RNG or renewable electricity is capital intensive.

The pricing of the various types of renewable energy produced by the Group is an ever-changing balance between the underlying energy commodity price and any associated environmental attribute premiums that can be realised. With electricity and natural gas commodity pricing in the US having been depressed for several years while still maintaining a relatively high degree of short-term volatility, the premiums associated with the various environmental attributes produced have become, and will continue to be, a major factor in the profitability of the business.

In this market our focus will continue to be to position the Company and its facilities to capitalise on and leverage the opportunities that develop in the renewable energy markets. The evolving federal and state regulatory environment mandating the use of renewable fuels can lead to opportunities that allow existing projects to capture additional premiums as they become available. To that end the Company has made the decision to remain flexible in its offtake contract strategy with the goal of capturing and maximising value from these programmes.

## ENVIRONMENTAL ATTRIBUTE PROGRAMMES

RNG derived from landfill methane, agricultural digesters and wastewater treatment facilities used as a vehicle fuel qualifies as a D3 cellulosic Renewable Identification Number (“RIN”) under the United States Environmental Protection Agency’s

(“EPA”) Renewable Fuel Standard (“RFS”) programme. The RFS is a US federal law that requires transportation fuel to contain a minimum volume of renewable fuel. RINs are compliance units for fuel blenders, created as part of the RFS to promote renewable fuel utilisation for the purpose of achieving significant GHG reductions, reducing imported petroleum and developing the renewable fuel sector in the US. One million British thermal units (“MMBtu”) of RNG represents approximately 11.7 RINs. The RFS programme does not have a sunset date and in effect remains, absent Congressional action to reform or eliminate it. The EPA administers the RFS programme and sets annual volume standards for renewable fuel by 30 November of each year for the following calendar year (“RVO”). The Company has participated in the RFS programme since 2014 and looks for opportunities to increase its participation in the RFS programme by examining all opportunities to grow the Company’s business. While the RFS allows for RNG produced anywhere in the US to qualify and potentially offers premiums significantly in excess of commodity prices for natural gas, uncertainty as to how the RFS will continue to be administered and supported by the EPA and the current Presidential Administration has impacted the stabilisation of the RIN market, resulting in price volatility and limited ability to sell RINs on a forward basis beyond a current calendar year. Although the market remains relatively illiquid, the Company has been able to successfully monetise blocks of D3 cellulosic RINs at pricing levels commensurate with general market conditions.

In June 2018 the EPA released the proposed volume obligations for 2019 of 381 million gallons cellulosic D3 RINs, representing a 32% increase over the 2018 volume obligations for cellulosic D3 RINs of 288 million gallons. The EPA will be accepting comments through 17 August 2018 from industry participants (including Montauk) on the volumes which it intends to use in finalising the volume obligations to accurately reflect actual production while promoting the growth of cellulosic biofuels. Montauk has taken an active role in the process by providing comments both individually and collectively through various renewable energy organisations to assist the EPA in setting volume obligations that meet the projected production for the industry. The proposed volume obligations for 2019 are expected to be finalised by the EPA

by 30 November 2018. The issuance by the EPA of timely and sufficient annual volume obligations to accommodate the RNG industry's growing production levels are paramount to the stabilisation of the RIN market. Notwithstanding the growth of the RNG space driven by the environmental premiums available for the generation of D3 RINs, the Company remains, and expects to remain, a significant contributor to the overall generation of D3 RINs in the RFS programme. Set forth below is the total RIN generation per calendar production year from Montauk's entire RNG portfolio, regardless of the monetisation strategy employed:

Year	Total industry D3 RINs generated	Montauk % of D3 RINs	Total industry CNG and LNG D3 RINs generated	Montauk % of CNG and LNG D3 RINs
2016	192 361 795	19.37%	188 556 549	19.76%
2017	250 624 373	16.90%	240 577 439	17.61%

There are three (3) types of fuel that comprise "total industry D3 RINs generated": cellulosic ethanol, renewable compressed natural gas ("CNG") and renewable liquefied natural gas ("LNG"). Within D3 production, Montauk's portfolio accounts for nearly 20% of CNG and LNG production in 2016 and approximately 18% in 2017.

The Low Carbon Fuel Standard ("LCFS") programme is a state-specific fuel policy designed to stimulate the use of cleaner low-carbon fuels. The programme, which encourages the production of such fuels, sets annual carbon intensity ("CI") standards, which reduce over time, for gasoline diesel and other fuel substitutes. Currently, two states, California and Oregon, have adopted such a programme. To the extent that RNG from Montauk's facilities is used as a transportation fuel in states that have adopted an LCFS programme, it is eligible to receive an environmental attribute additional to the RIN value under the federal RFS.

The environmental premiums associated with renewable electricity produced by Montauk's electric facilities are centred on various state renewable portfolio standards requiring that a stated percentage of the electricity produced in that state comes from a renewable resource. Such premiums are in the form of renewable energy credits ("RECs"). The value and requirements for each state programme vary widely, which can limit the ability of similar facilities located in different states from having a similar pricing structure. In addition, only twenty-nine (29) states and the District of Columbia have adopted renewable portfolio standards. All five (5) of Montauk's electric facilities receive revenue from the monetisation of RECs either as part of a power sales agreement or separately.

## RESULTS

Revenue from the Company's RNG facilities increased by \$17.8 million or 24.6% for the year ended 31 March 2018 from the prior year. The Company produced 3.9 million MMBtus in RNG volumes, an increase of 0.5% over the prior year. During the year ended 31 March 2018 the Company self-marketed 17.2 million RINs, a 6.8 million decrease from the prior year. The decrease is attributable to a shift in monetisation strategy to increase volumes sold under floor price agreements. At 31 March 2018 the Company had 0.6 million RINs generated and unsold in inventory, 0.3 million lower than at 31 March 2017. Average commodity pricing for natural gas during the year ended 31 March 2018 was 9.5% higher than the prior year. Average pricing realised on RIN sales during the year ended 31 March 2018 was 43.9% higher than the average pricing realised in the prior year, partially attributed to the increase in the cellulosic waiver credit from calendar year 2016 (\$1.33) to calendar years 2017 (\$2.00) and 2018 (\$1.96). For the year ended 31 March 2018, 29.6% of revenue from RNG production was monetised at fixed prices.

Revenue from the Company's electric generation facilities increased by \$2.1 million, or 12.1%, for the year ended 31 March 2018 from the prior year. The Company produced 0.3 million MWh in renewable electric volumes, approximately equal to the prior year. Average commodity pricing for electricity during the year ended 31 March 2018 was 15.8% higher than the prior year. For the year ended 31 March 2018, 82.3% of revenue from renewable electricity production was monetised at fixed prices.

Operating expenses for the year ended 31 March 2018 increased by \$4.2 million, or 8.1%. The increase is largely attributed to non-capitalisable optimisation costs for the Bowerman electric generation facility. The gains recognised from the Company's hedging programmes for the year ended 31 March 2018 were \$0.2 million, approximately equal to the prior year.

During the year ended 31 March 2018 the Company realised other income of \$3.5 million, largely attributable to settlement proceeds from arbitration.

In August 2017 the Company recognised \$1.6 million in expenses related to the early extinguishment of debt. Total cash paid associated with this expense was \$1.1 million.

For the year ended 31 March 2018 the Company recognised \$15.8 million in tax expense, of which \$14.7 million was off-set against the Company's deferred tax asset.

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## DEVELOPMENT ACTIVITIES

In October 2016 the Company entered into an agreement with one of its existing landfill counterparties to convert an existing renewable electric project to an RNG facility by building, owning and operating an RNG facility at the Atascocita Landfill in Texas for a term of 20 years from commercial operation. Commercial operation of this RNG facility commenced in the first quarter of the 2019 financial year and the electric generation facility has been decommissioned. RNG from this facility has been contracted for use in the transportation sector to allow for the generation of RINs under the RFS and will commence upon final EPA registration under the RFS and Quality Assurance Plan designation which is anticipated in the second quarter of the 2019 financial year.

In June 2017 the Company entered into an agreement with a new landfill counterparty to operate the gas collection system, and build, own and operate an RNG facility at the Apex Landfill located in Ohio for a term of 20 years from commercial operation. Commercial operation of this RNG project commenced in the second quarter of the 2019 financial year. RNG from this facility has been contracted for use in the transportation sector to allow for the generation of RINs under the RFS and will commence upon final EPA registration under the RFS and Quality Assurance Plan designation which are anticipated in the third quarter of the 2019 financial year.

In April 2018 the Company entered into an agreement with one of its existing landfill counterparties to operate the gas collection system, and build, own and operate an RNG facility at the Galveston Landfill located in Texas for a term of 20 years from commercial operation. Upon commercial operation the output from this new RNG facility is intended to be contracted for use in the transportation sector to allow for the generation of RINs under the RFS. Commercial operation at this RNG project is targeted to commence in the first quarter of the 2020 financial year.

In May 2018 the Company entered into an agreement with one of its existing landfill counterparties to decommission its existing electric facility, and build, own and operate an RNG facility at the Coastal Plains Landfill located in Texas for a term of 20 years from commercial operation. Upon commercial operation the output from this new RNG facility is intended to be contracted for use in the transportation sector to allow for the generation of RINs under the RFS. Commercial operation at this RNG project is targeted to commence in the third quarter of the 2020 financial year.

In July 2018 the Company entered into a joint venture agreement with a dairy farm partner to build and operate a manure digester, and build, own and operate an RNG facility at a commercial dairy farm located in Chowchilla, California

for a term of 20 years from commercial operation. The Company holds an 80% interest in the joint venture and it represents the Company's first RNG project on a dairy farm. Upon commercial operation the output from this new RNG facility is anticipated to be 220 MMBtu/day and is intended to be contracted for use in the transportation sector to allow for the generation of RINs under the RFS and LCFS credits under the California LCFS. Commercial operation at this RNG project is targeted to commence in the second quarter of the 2020 financial year.

These additions will further strengthen Montauk's position as a leader in the production of renewable RNG.

## MONTAUK'S PORTFOLIO

Set forth below is a summary of each of the projects in Montauk's portfolio:

### Renewable natural gas facilities

Site	Location	Capacity*
Rumpke	Cincinnati, OH	7 271 MMBtu/day
Atascocita	Humble, TX	5 570 MMBtu/day
McCarty	Houston, TX	4 415 MMBtu/day
Apex	Amsterdam, OH	2 673 MMBtu/day
Raeger Mountain	Vintondale, PA	2 673 MMBtu/day
Shade	Cairnbrook, PA	2 673 MMBtu/day
Monroeville	Monroeville, PA	2 372 MMBtu/day
Valley	Harrison City, PA	2 372 MMBtu/day
Southern	Davidsville, PA	1 337 MMBtu/day
<b>Total</b>		<b>31 356 MMBtu/day</b>

### Renewable electric facilities

Site	Location	Name plate capacity
Bowerman Power	Irvine, CA	23.6 MW
Monmouth	Tinton Falls, NJ	10.0 MW
Coastal Plains**	Alvin, TX	5.0 MW
Security	Cleveland, TX	3.4 MW
Tulsa/AEL	Sand Springs, OK	3.2 MW
<b>Total</b>		<b>45.2 MW</b>

### Development projects

Site	Location	Capacity*
Galveston	Galveston, TX	1 857 MMBtu/day
Coastal Plains	Alvin, TX	1 775 MMBtu/day
Red Top	Madera, CA	220 MMBtu/day
<b>Total</b>		<b>3 852 MMBtu/day</b>

\* Assumes inlet methane content of 56% and process efficiency of 91%

\*\* Electric site will be repurposed and converted to an RNG project development in fiscal year 2020

Montauk uses a three-year trailing average of landfill gas production as part of its forecast of gas control and collection system (“GCCS”) output for each subsequent financial year. In financial year 2018 the winter was unusually cold and wet, particularly compared to the last several financial years which were uncharacteristically mild. In addition, day-to-night fluctuations cause movement of wells and GCCS components, affecting quantity, as well as precipitating swings in gas quality and the need for continuous GCCS tuning. These factors impacted landfill gas production for the financial year, especially for Montauk’s facilities located in the North eastern US.

### GAS RIGHTS AGREEMENTS

A critical component of the Company’s business is its ability to negotiate and maintain long-term gas rights agreements. Montauk has nurtured excellent working relationships with our waste management company hosts and actively looks to strategically extend gas rights at our project sites. Set forth below is a summary of the expiration periods of those agreements:

#### RNG facilities – gas rights expiration dates

Expire	Sites	% of FY 18 total RNG portfolio production
Within 7 years	0	0.00%
Between 8 – 14 years	4	47.48%
Between 15 – 20 years	3	52.52%

#### Renewable electric facilities – gas rights expiration dates\*\*

Expire	Sites	% of FY 18 total electric production
Within 7 years	1	16.67%
Between 8 – 14 years	3	50.00%
Between 15 – 20+ years	2	33.33%

\*\* Includes the Atascocita electric generation project which has ceased operation and been repurposed to an RNG project

#### Development projects – gas rights expiration dates

Expire	Sites
20 years	5

### 2017 TAX CUTS AND JOBS ACT

The 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on 22 December 2017. The 2017 Tax Act significantly revises the US corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%. The Company remeasured its federal deferred tax asset using the reduction in the US corporate income tax rate, resulting in a tax expense of \$5.5 million. The Company continues to explore additional tax credit opportunities (both at the state and federal level), as well as bonus depreciation opportunities to further reduce its effective tax rate.

### SUMMARY

Management believes that Montauk remains well positioned to capture both existing and emerging value from developing the renewable energy markets in order to drive long-term entity value.



**ML Ryan**  
Chief Executive Officer

24 July 2018